

**Report of the  
PUBLIC EMPLOYEE RETIREMENT  
ADMINISTRATION COMMISSION  
on the Examination of the  
Brookline  
Contributory Retirement System  
For the Five Year Period  
January 1, 1998 - December 31, 2002  
PERAC 02: 08-024-06**

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November 21, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Brookline** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1998** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton  
Executive Director

## Brookline Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002**

**1. Cash Reconciliation:** The Town Treasurer is not performing a reconciliation of the retirement system's cash accounts on a monthly basis as required as custodian of the system's funds. The retiree payroll account was not in balance with the General Ledger (Account 1045) as of December 31, 2002 and March 31, 2003. The discrepancies are \$228.96 and \$2,363.93 respectively.

As of March 31, 2003 there were 49 checks outstanding for over 6 months. The total value exceeded \$22,000.00. Five of these checks dated back to 1991 and nine were outstanding since 1992.

**Recommendation:** The Town Treasurer shall be the custodian of the retirement systems funds according to G.L. c.32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Board must ensure that the Treasurer fulfill his/her obligation as custodian of the fund.

Any checks outstanding more than six months should be researched, so that the proper voiding and recording of these items can be completed.

**2. Warrants:** Monthly expense warrants were reviewed for the five-year audit period. Beginning in 1999 the warrants were not signed or signed by only one Board member. The Board does not generate a warrant for monthly pension payments.

**Recommendation:** G.L. c.32, § 23 (2) (a) states that disbursements of funds must be authorized by vote of the Board. The Board uses the warrant in lieu of a voucher system for certain expenditures; therefore, the warrant must be signed by a majority of the Board for all disbursements. Also, a payroll warrant must be voted and signed by a majority of the Board.

**3. Board Minutes:** The Auditor reviewed Board Meeting Minutes for the five-year audit period. From 1998 through 2000 pre-numbered pages were used. Beginning in January 2001, the pages were not pre-numbered or initialed by the Board members and every other page was left blank.

**Recommendation:** In accordance with 840 CMR 25.31, the pages of the Minutes must be bound and pre-numbered or initialed by Board members and members who attend a meeting must sign such minutes. All pages intentionally left blank must be marked void.

**4. Annual Affidavits:** The Board uses Pension Benefit Information to do a death search. This is used in lieu of an annual affidavit to verify the retiree or beneficiary is currently living. The PBI program does not satisfy the other information required by 840 CMR 15.01.

## **Brookline Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002**

**Recommendation:** The regulation requires a) the name of member or beneficiary, b) current address, c) statement certifying the member of beneficiary is currently living, d) marital status if relevant, e) current dependency status if relevant. The Board must either send affidavits or find a third party service which can comply with 840 CMR 15.01.

**5. Member Deductions:** The auditor sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. Seven of those sampled worked for the Brookline Housing Authority. The deduction information supplied to the Retirement Board from BHA was inaccurate for six of the seven members sampled.

**Recommendation:** Unit Treasurers or other disbursing officers in charge of payrolls are required to submit to the Board accurate payroll information for all members and employees not enrolled in the retirement system. The following detail payroll register information should be submitted to the Board:

1. Name
2. Social Security number or employee number
3. Compensation by type: total, regular, overtime and 2% excess
4. Contribution amount, identifying regular deductions and excess deductions for earning over \$30,000
5. Contribution rate
6. Membership date
7. Any other information deemed appropriate

This data must be routinely reviewed by the Board to ensure proper deductions are being withheld. Unit treasurers or other disbursing officers in charge of payroll must certify to the Board that deductions were taken in accordance with the provisions of G.L. c.32 § 22.

**BOARD RESPONSE:**

The Brookline Contributory Retirement Board reviewed the January 1, 1998 – December 31, 2002 audit at the Board's monthly meeting in September. The Board will comply with all of the audit recommendations.

***PERAC audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## Brookline Retirement System

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FIVE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2002**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
<b>ASSETS</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Cash	\$16,973,166	\$12,631,733	\$15,813,144	\$7,694,125
Short Term Investments	0	0	0	4,727,438
Fixed Income Securities (at book value)	52,080,721	61,634,502	48,603,454	44,705,517
Pooled Domestic Equity Funds	63,955,809	74,135,929	78,891,969	83,668,760
Pooled International Equity Funds	15,637,046	13,515,140	14,868,415	17,178,658
Pooled Domestic Fixed Income Funds	4,124,392	0	0	0
Pooled Alternative Investment Funds	379,165	243,017	0	0
PRIT Core Fund	677,073	747,399	792,973	805,709
Interest Due and Accrued	504,372	753,937	683,498	614,072
Accounts Receivable	1,308,161	668,710	488,204	1,640,618
Accounts Payable	(13,175,046)	(8,616,415)	(90,232)	(51,367)
<b>TOTAL</b>	<b><u>\$142,464,859</u></b>	<b><u>\$155,713,952</u></b>	<b><u>\$160,051,425</u></b>	<b><u>\$160,983,529</u></b>
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$43,641,169	\$42,325,000	\$40,892,812	\$39,180,911
Annuity Reserve Fund	15,783,869	14,587,294	14,080,178	13,311,510
Pension Fund	17,923,289	13,450	24,355,663	26,848,993
Military Service Fund	13,638	21,355,147	13,199	12,928
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>65,102,894</u>	<u>77,433,061</u>	<u>80,709,572</u>	<u>81,629,187</u>
<b>TOTAL</b>	<b><u>\$142,464,859</u></b>	<b><u>\$155,713,952</u></b>	<b><u>\$160,051,425</u></b>	<b><u>\$160,983,529</u></b>

**Note:** Financial data for 1998 available upon request.

## Brookline Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FIVE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2002**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (1999)</b>	\$37,565,877	\$12,481,959	\$28,081,463	\$12,649	\$0	\$65,569,710	<b>\$143,711,658</b>
Receipts	4,082,618	381,478	9,783,684	278	640,138	16,059,477	<b>30,947,673</b>
Interfund Transfers	(1,904,223)	1,904,223	0	0	0	0	<b>0</b>
Disbursements	<u>(563,361)</u>	<u>(1,456,150)</u>	<u>(11,016,154)</u>	<u>0</u>	<u>(640,138)</u>	<u>0</u>	<b><u>(13,675,802)</u></b>
<b>Ending Balance (1999)</b>	<b>39,180,911</b>	<b>13,311,510</b>	<b>26,848,993</b>	<b>12,928</b>	<b>0</b>	<b>81,629,187</b>	<b>160,983,529</b>
Receipts	4,375,255	405,244	9,269,785	271	880,603	(919,615)	<b>14,011,543</b>
Interfund Transfers	(1,888,714)	1,888,714	0	0	0	0	<b>0</b>
Disbursements	<u>(774,640)</u>	<u>(1,525,289)</u>	<u>(11,763,115)</u>	<u>0</u>	<u>(880,603)</u>	<u>0</u>	<b><u>(14,943,647)</u></b>
<b>Ending Balance (2000)</b>	<b>40,892,812</b>	<b>14,080,178</b>	<b>24,355,663</b>	<b>13,199</b>	<b>0</b>	<b>80,709,572</b>	<b>160,051,425</b>
Receipts	4,507,989	430,296	9,437,210	251	645,491	(3,279,297)	<b>11,741,941</b>
Interfund Transfers	(1,839,101)	1,836,315	0	0	0	2,786	<b>0</b>
Disbursements	<u>(1,236,701)</u>	<u>(1,759,495)</u>	<u>(12,437,726)</u>	<u>0</u>	<u>(645,491)</u>	<u>0</u>	<b><u>(16,079,413)</u></b>
<b>Ending Balance (2001)</b>	<b>42,325,000</b>	<b>14,587,294</b>	<b>21,355,147</b>	<b>13,450</b>	<b>0</b>	<b>77,433,061</b>	<b>155,713,952</b>
Receipts	4,632,285	450,794	9,520,289	188	716,440	(12,330,167)	<b>2,989,829</b>
Interfund Transfers	(2,531,988)	2,541,761	(9,773)	0	0	0	<b>0</b>
Disbursements	<u>(784,128)</u>	<u>(1,795,980)</u>	<u>(12,942,374)</u>	<u>0</u>	<u>(716,440)</u>	<u>0</u>	<b><u>(16,238,922)</u></b>
<b>Ending Balance (2002)</b>	<b><u>\$43,641,169</u></b>	<b><u>\$15,783,869</u></b>	<b><u>\$17,923,289</u></b>	<b><u>\$13,638</u></b>	<b><u>\$0</u></b>	<b><u>\$65,102,894</u></b>	<b><u>\$142,464,859</u></b>

Note: Financial data for 1998 available upon request.

# Brookline Retirement System

## STATEMENT OF INCOME

**FOR THE FIVE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2002**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Annuity Savings Fund:</b>				
Members Deductions	\$3,751,969	\$3,491,821	\$3,294,414	\$3,125,965
Transfers from other Systems	271,826	252,536	225,135	93,188
Member Make Up Payments and Redeposits	40,616	15,166	57,206	64,089
Investment Income Credited to Member Accounts	<u>567,874</u>	<u>748,467</u>	<u>798,500</u>	<u>799,376</u>
<b>Sub Total</b>	<b><u>4,632,285</u></b>	<b><u>4,507,989</u></b>	<b><u>4,375,255</u></b>	<b><u>4,082,618</u></b>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited Annuity Reserve Fund	<u>450,794</u>	<u>430,296</u>	<u>405,244</u>	<u>381,478</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	144,233	146,474	146,549	148,735
Received from Commonwealth for COLA and Survivor Benefits	633,057	768,736	705,236	1,415,949
Pension Fund Appropriation	<u>8,743,000</u>	<u>8,522,000</u>	<u>8,418,000</u>	<u>8,219,000</u>
<b>Sub Total</b>	<b><u>9,520,289</u></b>	<b><u>9,437,210</u></b>	<b><u>9,269,785</u></b>	<b><u>9,783,684</u></b>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>188</u>	<u>251</u>	<u>271</u>	<u>278</u>
<b>Sub Total</b>	<b><u>188</u></b>	<b><u>251</u></b>	<b><u>271</u></b>	<b><u>278</u></b>
<b>Expense Fund:</b>				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>716,440</u>	<u>645,491</u>	<u>880,603</u>	<u>640,138</u>
<b>Sub Total</b>	<b><u>716,440</u></b>	<b><u>645,491</u></b>	<b><u>880,603</u></b>	<b><u>640,138</u></b>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	31,332	25,344	26,676	36,938
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	5,212	18,181	12,489	10,768
Misc. Income	66	0	0	0
Excess Investment Income	<u>(12,366,776)</u>	<u>(3,322,821)</u>	<u>(958,780)</u>	<u>16,011,771</u>
<b>Sub Total</b>	<b><u>(12,330,167)</u></b>	<b><u>(3,279,297)</u></b>	<b><u>(919,615)</u></b>	<b><u>16,059,477</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$2,989,829</u></b>	<b><u>\$11,741,941</u></b>	<b><u>\$14,011,543</u></b>	<b><u>\$30,947,673</u></b>

Note: Financial data for 1998 available upon request.



# Brookline Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE FIVE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2002**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$402,624	\$346,060	\$325,427	\$496,687
Transfers to other Systems	<u>381,504</u>	<u>890,641</u>	<u>449,213</u>	<u>66,674</u>
<b>Sub Total</b>	<b><u>784,128</u></b>	<b><u>1,236,701</u></b>	<b><u>774,640</u></b>	<b><u>563,361</u></b>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	1,746,487	1,653,371	1,519,360	1,408,987
Option B Refunds	<u>49,493</u>	<u>106,125</u>	<u>5,930</u>	<u>47,163</u>
<b>Sub Total</b>	<b><u>1,795,980</u></b>	<b><u>1,759,495</u></b>	<b><u>1,525,289</u></b>	<b><u>1,456,150</u></b>
<b>Pension Fund:</b>				
Pensions Paid				
Regular Pension Payments	7,410,872	6,824,780	6,190,287	5,452,372
Survivorship Payments	824,253	696,580	692,432	663,337
Ordinary Disability Payments	177,576	148,215	141,417	150,360
Accidental Disability Payments	3,234,400	2,823,446	2,746,904	2,766,943
Accidental Death Payments	823,005	671,335	682,996	694,944
Section 101 Benefits	217,169	184,365	176,032	152,281
3 (8) (c) Reimbursements to Other Systems	141,919	251,853	251,958	194,059
State Reimbursable COLA's Paid	113,179	837,153	881,088	941,857
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>12,942,374</u></b>	<b><u>12,437,726</u></b>	<b><u>11,763,115</u></b>	<b><u>11,016,154</u></b>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	0	0	0	0
Salaries	170,708	157,241	163,929	159,595
Legal Expenses	11,482	10,048	11,388	18,065
Medical Expenses	0	100	0	32
Travel Expenses	6,467	6,854	7,906	5,598
Administrative Expenses	107,378	81,702	101,482	43,096
Furniture and Equipment	32,987	15,322	18,745	3,389
Management Fees	270,198	234,555	442,266	281,328
Custodial Fees	67,220	69,668	64,887	59,036
Consultant Fees	<u>50,000</u>	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>
<b>Sub Total</b>	<b><u>716,440</u></b>	<b><u>645,491</u></b>	<b><u>880,603</u></b>	<b><u>640,138</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$16,238,922</u></b>	<b><u>\$16,079,413</u></b>	<b><u>\$14,943,647</u></b>	<b><u>\$13,675,802</u></b>

Note: Financial data for 1998 available upon request.

# Brookline Retirement System

## INVESTMENT INCOME

**FOR THE FIVE YEAR PERIOD BEGINNING JANUARY 1, 1998  
AND ENDING DECEMBER 31, 2002**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Investment Income Received From:</b>				
Cash	\$229,391	\$440,853	\$639,612	\$357,783
Short Term Investments	0	108,680	145,127	236,195
Fixed Income	3,590,269	4,319,395	3,987,241	4,102,279
Equities	6,049	10,762	0	56,842
Pooled or Mutual Funds	119,878	441,107	0	110,746
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>3,945,587</u></b>	<b><u>5,320,797</u></b>	<b><u>4,771,981</u></b>	<b><u>4,863,845</u></b>
<b>Plus:</b>				
Increase in Amortization of Fixed Income Securities	0	0	0	0
Realized Gains	2,160,530	940,784	561,946	91,429
Unrealized Gains	15,647,337	576,820	1,589,729	17,001,270
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>504,372</u>	<u>753,937</u>	<u>683,498</u>	<u>614,072</u>
<b>Sub Total</b>	<b><u>18,312,239</u></b>	<b><u>2,271,540</u></b>	<b><u>2,835,172</u></b>	<b><u>17,706,770</u></b>
<b>Less:</b>				
Decrease in Amortization of Fixed Income Securities	0	0	0	0
Paid Accrued Interest on Fixed Income Securities	(890,110)	(872,018)	(924,934)	(829,405)
Realized Loss	(1,251,000)	(1,199,372)	0	(918,405)
Unrealized Loss	(29,994,259)	(6,335,767)	(4,942,310)	(2,071,364)
Custodial Fees Paid	-	-	-	-
Consultant Fees Paid	-	-	-	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(753,937)</u>	<u>(683,498)</u>	<u>(614,072)</u>	<u>(918,399)</u>
<b>Sub Total</b>	<b><u>(32,889,307)</u></b>	<b><u>(9,090,654)</u></b>	<b><u>(6,481,316)</u></b>	<b><u>(4,737,574)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>(10,631,481)</u></b>	<b><u>(1,498,317)</u></b>	<b><u>1,125,837</u></b>	<b><u>17,833,042</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	567,874	748,467	798,500	799,376
Annuity Reserve Fund	450,794	430,296	405,244	381,478
Military Service Fund	716,440	645,491	880,603	278
Expense Fund	<u>188</u>	<u>251</u>	<u>271</u>	<u>640,138</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>1,735,296</u></b>	<b><u>1,824,505</u></b>	<b><u>2,084,618</u></b>	<b><u>1,821,271</u></b>
Net Investment Income	<u>(10,631,481)</u>	<u>(1,498,317)</u>	<u>1,125,837</u>	<u>17,833,042</u>
Less: Total Income Required	<u>1,735,296</u>	<u>1,824,505</u>	<u>2,084,618</u>	<u>1,821,271</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>(\$12,366,777)</u></b>	<b><u>(\$3,322,821)</u></b>	<b><u>(\$958,780)</u></b>	<b><u>\$16,011,771</u></b>

Note: Financial data for 1998 available upon request.

## Brookline Retirement System

### STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

**FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

		PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
	MARKET VALUE		
Cash	\$16,973,166	11.03%	100
Fixed Income	52,080,721	33.86%	40 - 80
Pooled Domestic Equity Funds	63,955,807	41.58%	60
Pooled International Equity Funds	15,637,046	10.17%	15
Pooled Domestic Fixed Income Funds	4,124,392	2.68%	
Pooled Alternative Investment Funds	379,165	0.25%	3
PRIT Core Fund	<u>677,073</u>	<u>0.44%</u>	100
<b>GRAND TOTALS</b>	<b><u>\$153,827,370</u></b>	<b><u>100.00%</u></b>	

\* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Brookline** Retirement System was -4.86%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Brookline** Retirement System averaged 4.89%. For the 18-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Brookline** Retirement System was 9.82%.

# **Brookline Retirement System**

## **SUPPLEMENTARY INVESTMENT REGULATIONS**

### **FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

The **Brookline** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 24, 1989

20.03(4) International equity and fixed income investments shall not exceed 15% of the total portfolio valued at market.

20.04(6) Foreign corporations and obligations issued and guaranteed by foreign governments.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States or traded in foreign stock markets.

September 16, 1986

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations (expired 12/31/87).

September 12, 1990

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

December 11, 1991

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1% of the value of the fund for the first \$5 million; and

(b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

November 2, 1995

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

March 7, 1996

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

## **Brookline Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)**

#### **FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

April 6, 2001

21.01 The Brookline Retirement Board has authorized State Street Research & Management Company to utilize financial futures and options in the management of its fixed income portfolio. These instruments will be used solely as tools to manage portfolio risk with regard to such measures as duration, convexity, and yield curve analysis. Use of these instruments is limited to 25% of the total value of fixed income portfolio. (All other Prohibited Investments of 21.01 still apply).

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brookline Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Brookline request as it applies to 840 CMR 17.04(6)

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brookline Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

## **Brookline Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)**

#### **FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Brookline Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Brookline Retirement Board.

## Brookline Retirement System

### NOTES TO FINANCIAL STATEMENTS

**FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

#### NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Brookline** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Brookline Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.



## Brookline Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Brookline** Retirement System has not submitted supplementary membership regulations to PERAC.

## **Brookline Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

##### **NOTE 4 - ADMINISTRATION OF THE SYSTEM**

The System is administered by a five person Board of Retirement consisting of the Town Comptroller who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Judith A. Haupin

Appointed Member: Stephen E. Cirillo                      Term Expires: 1/13/2006

Elected Member: Joseph P. Duffy                      Term Expires: 12/19/2005

Elected Member: James Riley                      Term Expires: 12/19/2005

Appointed Member: Fred A. Taub                      Term Expires: 1/22/2006

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$30,000,000 Fiduciary Liability
Elected Member:	)	MACRS Policy
Appointed Member:	)	
Staff Employee:	)	

# Brookline Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **PriceWaterhouseCoopers** as of **January 1, 2002**.

The actuarial liability for active members was	\$125,919,097
The actuarial liability for retired members was	124,559,246
The total actuarial liability was	<b>250,478,343</b>
System assets as of that date were	171,285,347
The unfunded actuarial liability was	<b><u>\$79,192,996</u></b>
The ratio of system's assets to total actuarial liability was	68.4%

The normal cost for employees on that date was 7.40% of payroll

The normal cost for the employer was 4.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.00% per annum  
**Rate of Salary Increase:** 5.50% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2002	\$171,285,347	\$250,478,343	\$79,192,996	68.4%	\$45,109,610	175.6%
1/1/2000	160,983,529	217,964,030	56,980,501	73.9%	43,028,894	132.4%
1/1/1998	121,604,190	192,305,540	70,701,350	63.2%	40,150,666	176.1%
1/1/1996	93,285,890	156,258,190	62,972,300	59.7%	36,686,332	171.7%

## Brookline Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2002**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Superannuation	16	17	16	26	29	28	26	38	19	33
Ordinary Disability	0	0	1	0	0	0	0	0	1	1
Accidental Disability	8	3	1	4	5	5	1	0	6	6
<b>Total Retirements</b>	<b>24</b>	<b>20</b>	<b>18</b>	<b>30</b>	<b>34</b>	<b>33</b>	<b>27</b>	<b>38</b>	<b>26</b>	<b>40</b>
Total Retirees, Beneficiaries and Survivors	802	793	793	787	799	794	792	798	794	803
Total Active Members	972	975	1,020	1,037	1,070	1,115	1,126	1,356	1,428	1,450
<b>Pension Payments</b>										
Superannuation	\$4,402,142	\$4,693,939	\$4,768,820	\$4,918,620	\$5,423,402	\$5,436,887	\$5,452,372	\$6,190,287	\$6,824,780	\$7,410,872
Survivor/Beneficiary Payments	523,020	571,664	634,735	634,152	708,828	739,057	663,337	692,432	696,580	824,253
Ordinary Disability	248,485	252,285	233,879	230,539	206,837	189,912	150,360	141,417	148,215	177,576
Accidental Disability	2,658,428	2,732,180	2,668,015	2,728,465	2,889,275	3,023,466	2,766,943	2,746,904	2,823,446	3,234,400
Other	<u>1,255,590</u>	<u>1,039,811</u>	<u>941,331</u>	<u>1,200,127</u>	<u>1,114,885</u>	<u>1,185,424</u>	<u>1,983,141</u>	<u>1,992,075</u>	<u>1,944,705</u>	<u>1,295,272</u>
<b>Total Payments for Year</b>	<b><u>\$9,087,665</u></b>	<b><u>\$9,289,879</u></b>	<b><u>\$9,246,780</u></b>	<b><u>\$9,711,903</u></b>	<b><u>\$10,343,227</u></b>	<b><u>\$10,574,746</u></b>	<b><u>\$11,016,154</u></b>	<b><u>\$11,763,115</u></b>	<b><u>\$12,437,726</u></b>	<b><u>\$12,942,374</u></b>